HENNESSEE GROUP LLC
HEDGE FUND ADVISORY

HENNESSEE HEDGE FUND REVIEW™

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VOLUME 3 ISSUE 1

	DECEMBER	YTD
HENNESSEE HEDGE FUND INDEX®	+1.85%	+7.61%
S&P 500 (with income)	+0.41%	-10.14%
LIPPER MUTUAL FUNDS	+4.55%	-5.43%
CORRELATED[1] HEDGE FUNDS	+2.86%	+9.20%
NON-CORRELATED* HEDGE FUNDS	+0.02%	+9.38%
GLOBAL HEDGE FUNDS	+2.74%	+1.34%

PERCENTAGE OF CORRELATED* MANAGERS OUTPERFORMING THE:

	DECEMBER	YTD
S & P 500	+79%	+85%
Lipper Mutual Funds	+32%	+81%

TOP (3) PERFORMING STYLES:

DECEMBER		YTD	
Latin America	+7.74%	Healthcare	+62.75%
Financial Equities	+7.25%	Short Bias	+29.93%
Macro	+6.64%	Financial Equities	+27.83%

BOTTOM (3) PERFORMING STYLES:

DECEMBER		YTD	
High Yield	-3.25%	Latin America	-12.54%
Regulation D	-1.79%	High Yield	-9.99%
Convertible Arbitrage	-1.74%	Emerging Markets	-9.35%

*CORRELATED: Long/Short Equity; NON-CORRELATED: Event/Arbitrage and Short Bias.

MARKET SUMMARY-DEC AND YEAR 2000

The start of the new millennium certainly proved to be a roller coaster ride for analysts and investors. The highlight of the year was the demise of the once invincible NASDAQ, which declined –39.3%, marking its worst annual performance since its inception in 1971. Millionaires that had been created by the NASDAQ's +85.6% 1999 year began selling their prized possessions, as their paper wealth rapidly depleted at the speed of its creation through 2000. Unprecedented levels of volatility were seen almost every month and investors became accustomed to 5-10% daily price swings in securities. Technology stocks weren't the only ones falling, as the Dow Jones (-6.18%) and S&P 500 (-10.14%) recorded their worst annual performance since 1981, ending a string of five double-digit positive years. By the end of the year, investors, analysts and institutions remained in awe, humbled by the experience and questioning what to do next.

While the year 2000 proved disastrous for the average investor, those investors fortunate enough to invest in hedge funds emerged unscathed by the bloodbath. **Hedge funds outperformed all of the major equity indices for the year 2000, as the Hennessee Hedge Fund Index increased +7.61% for the year, compared to negative performance in the Russell 2000 (-4.21%), S&P and NASDAQ.** Managers proved that they practiced what they preached by implementing excellent risk management techniques and preserving capital in a down market. They capitalized on their ability to short equities and move to cash positions when appropriate. Year 2000 proved to be a defining year for hedge funds, as their positive performance during these tumultuous times proves that they are the most attractive alternative asset class.

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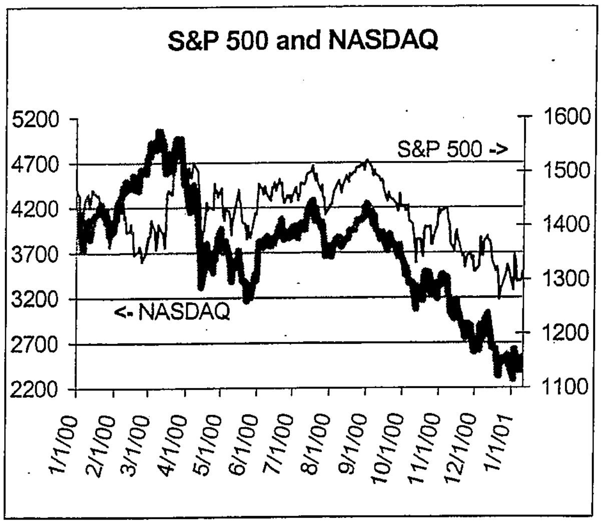
Throughout 2000, investors remained in awe of the high levels of volatility they witnessed month after month in the NASDAQ. The market had never undergone such extreme daily price swings or changes in investors' sentiment, as stocks would undergo 10% daily swings for no fundamental reason. Prior to 2000, 3% daily moves had occurred less than 1% of the time since the NASDAQ's inception. More importantly, some of the most volatile trading sessions occurred on days with low daily trading volume, as retail investors drove the direction of the market, while institutions waited on the sidelines. Some attribute this to the emergence of the day trader who often attempts to buy into the momentum in the morning and make a profit by the afternoon. Towards the end of the year, the market began to see these high levels of volatility accompanied by higher trading volumes, indicating that institutions had begun to step back into the markets.

We began the year 2000 with a passion for the technology sector that had carried over from 1999. Investors continued to abandon fundamentals and chased momentum and ideas, driving the NASDAQ to its high, as by March the index had increased +256% from October of 1998. On March 10, the NASDAQ hit an all-time high of 5084.62 and investor's appetite for technology stocks began to wane, marking the start of a correction that would take its course throughout the remainder of the year. **By the end of December, the NASDAQ declined –54.0% from its March high and –39.3% for the year.** Investors became disenchanted with the weak financial performance and lack of positive earnings of many of these companies and could not justify the prices at which they were trading. The bubble had burst, causing a rippling effect throughout the entire sector.



At the start of 2000, dotcom companies continued to enjoy success in the stock market, as they represented the new wave of the future. In pursuit of the "all-mighty dollar", everyone wanted to either work for a dotcom, create an idea for a dotcom or buy its stock, as this phenomenon continued to produce overnight millionaires. Once it became evident that the majority of these companies would continue to announce negative earnings, an overall disenchantment with the sector emerged. By the fourth quarter, investment banks became less willing to raise capital for dotcom companies through an IPO and high-yield markets were reluctant to lend money. Due to the inability to attain more financing after their initial capital infusion, coupled with a deteriorating stock price, many were forced into bankruptcy. Companies such as Priceline.com, whose stock price rose +101% in the first two months of 2000 and then fell 98% by the end of the year to $1 a share, saw their market cap swiftly deteriorate. According to webmergers.com, 210 Internet companies folded in 2000 and 60% of these bankruptcies occurred during the fourth quarter. For the year, the IIH (Internet Infrastructure Holders Trust) Index declined –77.25%.

The IPO market was also affected by the deflation of the tech bubble, as it dried up during the fourth quarter. Although the IPO market raised a record $81.2 billion in 2000, 31% of the deals issued were in the first quarter and 70-80% of those companies were in the TMT sector. Only 14% of IPO's in 2000 occurred in the fourth quarter and only 30% of those companies were in the TMT sector. Investors were no longer guaranteed a profit when investing in an IPO, as 64% of the IPO's issued in 2000 were trading below their offer price.

Although the majority of the companies on the NASDAQ hit lower levels, some securities were able to record gains. **The biotech sector remained unaffected by the burst of the technology bubble, as the BTK Biotech Index increased +61.78%.** The June release of the mapping of the human genome opened the door to endless opportunities with regards to drug development. Many investors swarmed the sector, anticipating future positive performance.

The war that Alan Greenspan waged against inflation marked another momentous occasion throughout the year. In order to mitigate the possibility of inflation due to a booming economy that had undergone economic expansion for a record 107 months, Alan Greenspan raised interest rates three times or 100 basis points in 2000. This brought the Federal Funds rate to 6.5%, the highest level it had been since the recession in 1990. With fourth quarter GDP in 1999 coming in at a higher than expected 7.3% and unemployment hitting a 30-year low at 3.9%, Greenspan believed that the economy was overheating.

As we approached the fall months, analysts began to question if Greenspan had gone too far, as economic data began to demonstrate a substantial slowdown in the economy. **In August, the CPI (Consumer Price Index, which includes volatile food and energy prices) declined for the first time in 14 years. In November, third quarter**

GDP came in at 2.7%, nearly half of what it was in the first quarter. Retail sales continued to decline from their January high. Analysts began to wonder what further evidence would be needed for Greenspan to change his bias to easing.

Rising oil prices and a tight labor market still indicated that inflation remained a possibility, resulting in the Fed's determination to maintain their tightening bias. In August, oil prices rose to $35/barrel, creating a potential profit squeeze for the transportation and manufacturing industry. Analysts worried that this squeeze could result in an increase in prices. Unemployment increased slightly to 4%, but remained at historically low levels, indicating the possibility of wage pressure.

In the second half of the year, it became evident that the slower economy had impacted corporate profits. A slew of profit warnings engulfed the market during September, sending all of the major indices into negative territory. Investors began to severely punish companies that were not able to meet their estimates. When Intel announced that they would not meet their second quarter revenue expectations, the stock declined –22% in one day. It lost $94.5 billion in market capitalization, marking the largest one-day market cap loss in history. The market underwent a shift in investment strategy, as investors stopped chasing momentum and future growth and began to focus on fundamentals.

The decrease in demand in the PC sector not only caused concern over future growth for PC companies, but also for the semi-conductor and software sectors. Dell, Lucent, Worldcom and Nortel all issued profit warnings sending their stock prices to 52-week lows. The SOXX semi-conductor index declined –19.94%. Investors became wary that even these large cap technology companies would not be able to grow at a sufficient rate under unfavorable economic conditions. By December, technology bellwether Microsoft issued its first profit warning in 10 years, and hit its 52-week low.

While investors lost their appetite for technology, they continued to desire stocks, and looked to defensive sectors such as pharmaceuticals, tobacco and utilities. There became a distinct shift back to "old economy" stocks. Having been one of the worst performing sectors in 1999, healthcare stocks performed extremely well, as the Hambrecht and Quest Pharmaceutical Index gained +38.99% for the year. Benefiting from the high price of oil and the shortage of natural gas, utility companies performed well, as the Dow Jones Utility Index increased +45.0%. As it became evident that the Fed would begin to undertake an easing bias, the financial sector began to outperform the indices and the BKX Banking Index (+17.06%) ended the year in positive territory.

Due to the decline in the equity markets, investors poured money into municipal and treasury bonds in hope for a "safe haven". The Lehman Brothers Institutional Govt/Corp Bond Index increased +10.1% for the year. The highlight in the bond market was the anomaly of the inverted yield curve. In January, the Government's treasury buy back program caused the 30-year treasury yield to decline 30 basis points in ten days to 6.45%. At the same time, the yield on the shorter-term issues was increasing because of the tightening interest rate environment. Due to the change to an easing bias and the slow decline of the long bond, the curve has begun to revert back to an upward sloping position.

Looking towards 2001, analysts and investors continue to disagree on the possibility of a soft or hard landing. All eyes will remain on the economy and the impact that Alan Greenspan's rate hike has had on corporate profits. On January 3rd, Greenspan announced an inter-meeting rate decrease of 50 basis points, adding some relief to the market. Some people believe that this change in bias came too late and we are already headed for a recession, while others assert that he will be able to execute a "soft landing". While the market has discounted another 50 basis point decrease, high energy prices and low unemployment could prevent the Fed from easing as much as necessary. The inauguration of a new President who claims to favor a tax reduction should help prevent the U.S. economy from experiencing the recession that Japan did after the Nikkei bubble burst.

Many believe that the burst of the technology bubble marks the end of one of the greatest phenomenon in the history of the markets. Looking towards 2001, the future of this sector remains unclear, as many analysts believe that these stock prices will continue to decline throughout the first half of the year. Others assert that they have hit a bottom and those companies with a strong business model and positive earnings will experience a rebound. No one has a crystal ball to predict the direction of the market or the strength of the economy for 2001. Although, one can be certain that it will not be an easy ride and could be potentially more tumultuous than 2000.

HEDGE FUND PERFORMANCE SUMMARY – DECEMBER / YEAR END

The Hennessee Hedge Fund Index recorded a +1.85% gain for December, ending a streak of three consecutive months in negative territory. The Hennessee Hedge Fund Index was up +7.61% for 2000. In comparison, the major equity indices all posted negative performance in 2000, led by a –39.72% decline in the NASDAQ. Managers were able to outperform the markets due to their risk management skills, especially their ability to short equities and move to cash when appropriate.

Correlated managers (long/short equities) advanced +2.86% in December, lifting their performance for 2000 to +9.20%. Non-correlated managers (event driven/arbitrage) were essentially flat with a +0.02% gain, bringing performance to +9.38% in 2000. For December the top three performing styles were Latin America (+7.74%), Financial Equities (+7.25%), and Macro (+6.64%). The worst performing styles during December were High Yield (-3.25%), Regulation-D (-1.79%), and Convertible Arbitrage (-1.74 %). **For the Year 2000 the top three performing styles were Healthcare (+62.75%), Short Biased (+29.93%), and Financial Equities (+27.83%). The worst performing styles during 2000 were Latin America (-12.54%), High Yield (-9.99%), and Emerging Markets (-9.35%).**

The Hennessee Healthcare Index gained an astounding +62.75% in 2000. A number of factors contributed to the performance of the healthcare sector. The completion of the mapping of the human genome raised hopes that biotechnology companies would cash in on lucrative treatments developed as a result. Additionally, as the economy began to falter, managers rotated into defensive positions in pharmaceutical and health service companies. The election of George W. Bush also boosted the industry, due to the belief that a Republican regime would not impose price controls on the industry.

The Hennessee Short Biased Index posted a +29.93% gain in 2000. Short biased managers enjoyed near perfect market conditions for their style, with all of the major equity indices down significantly for the year. The run-up of the markets in previous years could not be sustained in the face of a slowing economy, replete with lower earnings, much tighter credit, and a series of bankruptcies in dotcom companies. Short biased funds demonstrated their *raison d'être,* as a truly effective hedge against down markets, such as those witnessed in 2000.

The Hennessee Financial Equities Index gained +27.83% in 2000. Managers were able to profit from the fact that investment banks received a record level of stock and bond underwriting fees in 2000. The lion's share of the deals were done in the first quarter, and then dropped precipitously by the fourth. However, expectations of lower interest rates offset the effects of a less fee-based business in the fourth quarter, catapulting financial sector equity prices higher. Managers were once again able to benefit by correctly anticipating that the Fed would shift its bias towards easing.

The Hennessee Latin America Index was the worst performing index, plunging –12.54% in 2000. The U.S. economic slowdown and the fall of the NASDAQ sparked fears of a global recession. Political instability ran rampant through the region, resulting in credit problems for some nations. High oil prices and reduced demand for exports combined to further hurt the Latin American markets. Illiquidity, always a problem in the region, was even more of a factor in volatile markets.

The Hennessee High Yield Index fell –9.99% in 2000. The phenomenon of the dotcom companies crashing and burning started the cycle. As the danger of bankruptcies approached, companies were unable to secure further financing, due chiefly to a lack of tangible assets and poor fundamentals. Credit spreads quickly gapped to the widest levels in a decade, with managers holding high yield paper finding themselves unable to sell into highly illiquid markets.

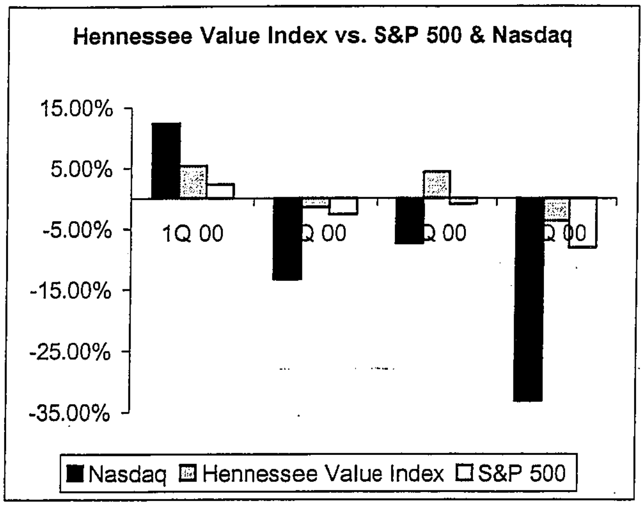
STYLE PERFORMANCE SUMMARIES-
(Annual/Month)

Value
(YTD: +3.66%/ DEC: +1.77%)

Value investing produced modest gains in the year 2000. With the increased stock-market volatility throughout most of the year, consumer confidence at its lowest level in two years, and the burst of the tech/internet bubble, the Hennessee Value Index advanced +3.66% for the year, taking the lead over growth investing which declined –3.22%. Value investors outperformed growth investors in light of the economic slowdown due to their ability to invest in companies with earnings potential and steady cash flows to cushion them in economic downturns. With the predictions for economic growth for 2001 falling to 2.4% from 3.2%, more undervalued opportunities may exist going forward due to the slowdown in the economy and recent poor market performance.

For the month of December, the Hennessee Value Index was up +1.77%. Compared to major indices, the Value Index outperformed the S&P 500 which was up a mere +0.41% for the month, and the NASDAQ down –4.90% in December, and reported its worst year ever since 1971. **In light of the stock market turmoil, especially affecting the tech-driven NASDAQ Composite Index, investors shifted their investing preference back to companies with sound fundamentals (solid earnings, low price to earnings ratio, and low multiples of price-to-book value) in hopes of escaping the tech/internet storm of the year 2000.**

Difficulties in the stock market at the end of the first quarter led managers to recognize more value opportunities. Value managers performed well for the first quarter of 2000, ending the quarter up



+6.59% as compared to the DJIA which ended the quarter down –4.99%. We began to see a gradual change from investing in large cap growth stocks to small cap value stocks as shown by the Russell 2000 ending the quarter up +7.08%. Value managers were laughing all the way to the bank as markets started realizing the excessive valuations of tech stocks, leading to reallocating assets from "new" economy to "old" economy stocks. Investors grew tired of momentum investing and turned their attention to the fundamentals by searching for the "hidden treasures" in the markets. In particular, the financials sector rebounded in the quarter, performing quite well due to their low P/E ratio and high earnings growth, spurred by investment banking fees generated by mergers and acquisitions and the skyrocketing of IPO's.

The U.S. economy still showed signs of remarkable strength as it entered into the second quarter of 2000. Towards the end of the second quarter, value managers believed that the Fed's interest rate hikes were excessive and could lead to a slowdown in the economy and possibly a "hard landing." Undervalued companies increased in value through rising activities in the LBO and M&A environment. **Concerns of a market correction in the technology sector drove down growth investors' market outlook, and once again, the shift from large cap stocks to small cap stocks exemplified that profits and cash flow do matter.** Due to increased volatility in the markets, value managers subsequently lowered their market exposures. In turn, investors continued to turn their attention to sound fundamentals, profitability, and recognized the "intrinsic value" of a company.

In the third quarter, fears of a slowing economy were already branded into most investors' minds. Despite the economic downturn, the Hennessee Value Index reported a gain of +4.35% for the third quarter, again outperforming all other major indices, including the S&P 500 which declined –0.97% in the same period. There was again a rotation in the third quarter from growth to value. In September, we saw three consecutive months of positive performance in the value sector which ended up +1.30% for the month. Value managers prevailed, continuing to outperform their counterparts for the year, yet escaping much of the stock market woes of the first half of the year that wiped out many growth managers' profits. **Managers recognized the potential in increasing their short-term short exposures in order to be profitable, while maintaining their long exposures in the energy, financials and utilities sectors.** Many believed that interest rates had peaked in July, creating speculation of easing in the following months, which boosted lending activities with banks. This in turn, fostered the financial sector's profitability among value managers. With rising energy costs, a slowdown in business investments and consumer spending, and a buildup in inventories, many value managers still remained cautious believing a slowdown was bound to deepen.

A continued energy crisis, presidential uncertainty, and disappointments in earnings reports characterized the fourth quarter of 2000 as the economy seemed to finally hit bottom as evidenced by reports of annualized GDP growth falling to 2.2% for the fourth quarter. On the upside, the Hennessee Value Index reaped modest gains of +2.46% for the quarter. While investors faced the harsh reality of the tech boom/bust in the first half of the year, value managers continued to sustain their long positions in financials and utilities in the fourth quarter. Concerns of supply shortages raised energy prices, sparking oil companies to expand their exploration and refinery operations. The Dow Jones Utilities Index reported a gain of +3.5% for the fourth quarter, ending the year with a stellar performance of +50.53%. However, Value managers maintained high levels of cash and low net exposures due to the increased uncertainty of the markets.

Looking forward in the year 2001, economists believe the markets are still overvalued and see profit opportunities. They believe financials and defensive industrial stocks will continue to create safe havens for investors looking to profit in the first six months of the year. Speculation of future economic recovery will prompt value managers to rotate their exposure to cyclicals products and continue to seek value opportunities elsewhere. Ironically, the tech sector, which contributed to the NASDAQ's worse performance in its 29-year history, is a favorable sector with value managers due to the "dirt cheap" prices which many of the dotcoms are currently selling. Though growth managers dominated the 1990's bull market, the year 2000 favored the value managers. Speculation of future economic recovery will prompt value managers to rotate their exposure to cyclicals products and continue to seek value opportunities.

Growth
(YTD: -3.22% / DEC: +3.16%)

Growth managers posted a gain of +3.16% for the month of December, bringing their performance for 2000 to -3.22%.

The first quarter of 2000 opened with managers hoping to continue the strong performance of 1999, when they were up +53.20%. Unfortunately, this was not to be the case. The markets were choppy and volatility was on the rise. While the broader markets were down to open 2000, managers remained flat, exhibiting the protection that hedge funds offer in declining markets. Most managers began to believe that interest rate hikes were imminent, which would not bode well for the growth sector. Managers rode the euphoric wave through the middle of the first quarter, outperforming the major indices. Despite the fact that they could not explain the continued surge of tech and internet stocks in the face of negative economic data, especially in companies lacking earnings and with fundamental flaws, managers nevertheless outperformed the market. However, managers began to grow cautious, for good reason. Investors began the exodus out of "new economy" stocks in the last part of the first quarter. Some managers point to British P.M. Tony Blair's and Bill Clinton's comments regarding the possible public nature of the information being gathered by companies in the genome sector as the catalyst that started the downward spiral. For the most part, growth managers were able to avoid getting hurt by benefiting from the short sides of their portfolios. By the end of the quarter, they recorded a gain of +11.59%, as money rotated out of tech stocks and into traditional large cap names. **Going into the second quarter, managers expressed a desire to preserve capital by careful stock selection of fundamentally strong companies, shorting overvalued companies, and moving to cash, if necessary, to let the dust settle and reexamine the environment.**

The decline marking the end of the first quarter gathered strength to open the second quarter. While managers remained ahead of the indices, they were nevertheless sharply lower. Gains from short positions were not sufficient to offset the losses incurred from the longs. Microsoft faced regulatory problems, and at this time, it looked like a break-up of the flagship technology company was imminent. Internet companies with little or no earnings found themselves in the unfamiliar position of being unable to secure credit to finance their operations. Without funds to meet their cash flow needs, many of these companies faced impending bankruptcy. Volatility remained high and sentiment was mixed as to whether the markets had hit the bottom or had just begun to fall. The second quarter witnessed the commencement of a series of poor earnings announcements and pre-announcements that polluted the economic landscape for the remainder of 2000. The stocks of such companies were severely penalized. Uncertainty as to whether the Fed would raise interest rate further in a time of perceived economic slowdown added to already high levels of market volatility. Huge intra-day swings in individual equities, as well as broader markets, gave managers fits. **Growth managers gained +4.28% for a rocky first half of 2000, and entered the third quarter with lower levels of net exposure and higher levels of cash.**

The third quarter began on an upbeat note, with the tech sector surging to start June. Amid the positive performance and heightened volatility, there were omens that all was not well. Possibly the single biggest negative factor in the first part of the quarter was a profit warning issued by Nokia, the world's largest cell phone handset manufacturer. The industry giant lost a quarter of its market capitalization in a single day. The shares of suppliers of handset components to Nokia followed its stock price down. However, investors welcomed the Federal Reserve Bank's announcement that it would not raise rates any higher, and the markets advanced in the middle portion of the third quarter, leading some managers to believe that a recovery of the sector had begun. Earnings warnings were still sporadic, and pundits were forecasting continued strong P.C. demand and 20% growth for technology companies. Managers were able to ride the resurgence of the market and record gains in the third quarter. Unfortunately, those that followed the prevailing sentiment and invested in small and mid cap companies were in for trouble in the fourth quarter.

The fourth opened sharply lower, with the NASDAQ down –8.25% for October. Those managers that had not already adopted defensive positions and low net exposures did so quickly. Semiconductors and component suppliers moved lower, caused by a combination of higher inventories and lower demand in the PC, wireless, networking and fiber optics sectors. The trend of companies issuing warnings and missing estimates gained momentum, culminating with almost daily announcements. Each occasion was met with a new round of selling. The unprecedented levels of volatility spurred managers to become even more cautious, retreating to ever lower net exposures and higher cash reserves. The U.S. presidential election debacle infused even more uncertainty into a chaotic market. Managers believed that the economy, which was suddenly showing signs of a dramatic slowdown, and possibly even a recession, would spur the Federal Reserve Board into action. The Fed did indeed shift its interest rate stance from a tightening bias to an easing bias, but did not lower rates in 2000. The fourth quarter frustrated managers endlessly, with growth oriented hedge funds losing over -7% for the quarter. In light of the fact that the NASDAQ lost over –32% for the same period, growth managers outperformed their benchmark. Nevertheless, the painful fourth quarter brought hedge fund performance in the sector into negative territory, with a loss of –3.22 % for the year.

Uncertainty remains the prevailing sentiment going into 2001. The consensus is that volatility will remain high and managers have stated they will continue to be cautious as they weigh several market factors. The true extent of earnings disappointments will be revealed in the first few weeks of 2001. The big questions are how much has the economy actually slowed and how long will the slowdown last. The expectations are that a recovery is not far away. Managers are encouraged by the popular belief that the U.S. Federal Reserve will continue to lower interest rates in an attempt to jumpstart the economy, although the effects of lower rates may not be felt for a full six months. However, investors remain extremely nervous, although measures of sentiment have not yet reached panic levels. **It is interesting to note that sentiment measures reaching panic levels are considered to be bullish indicators, as they have correlated with subsequent market advances.** The sharp decrease in equity valuations has brought stock prices to levels that are now considered to be attractive by many. **Managers have emphasized the importance of stock picking in 2001, with a focus on fundamentals.** Managers anticipate that cyclicals and the financial sectors will well going forward, as both have historically benefited from lower rates. The biotech sector has a concentration of companies with very high valuations and little or no earnings, and managers have expressed the need for extreme caution when investing here. The jury is still out concerning technology sector. While prices have come down dramatically, they remain high on a historical level. Nevertheless, the consensus is that technology companies will be able to deliver superior earnings growth on a long-term basis. **For the near-term, managers plan to maintain low net exposures. As 2001 progresses and the economic picture becomes clearer, managers expect to put their cash to work, selectively increasing long exposures.**

Macro
(YTD: +5.89% / DEC: +6.64%)

The Hennessee Macro Index experienced yet another difficult year in 2000, advancing +5.89% following an abysmal 1999. Fortunately, macro managers outperformed the major equity indices on a relative basis during 2000, something they were unable to accomplish in 1999 when the index' +7.90% gain significantly trailed the impressive returns of the NASDAQ and S&P 500.

Over the first quarter, macro managers underperformed the equity indices, as the Hennessee Macro Index advanced +0.82% in comparison to the S&P 500, which gained +2.30%. The first quarter of 2000 was similar to 1999. Equities were king, and macro managers with equity exposure to the technology sector continued to perform well, while those committed to value stocks experienced even more poor performance. As volatility within the tech sector swelled throughout the quarter, the majority of managers reduced their exposure to technology, recognizing the growing risk of excessive valuations. By the end of the quarter, the bubble within the technology sectors finally burst, causing valuations to deteriorate. While defensive sectors remained resilient to the plight of the techs, they eventually followed the downward path, as investors began to avert the risk of equities. Volatility reached an all-time high, although few realized that the worst was yet to come. Even currency markets experienced sharp volatility. The euro, which began the year fairly weak, turned to a crisis situation after falling dramatically in the last few weeks of the first quarter.

At the end of the first quarter, the deflation of the technology bubble created a flight to quality in bonds. **For the first time since 1989 (prior to the last recession), the yield curve inverted as the Treasury initiated a buyback of the 30-year issue using the excess budget surplus. Furthermore, the Fed continued to ratchet up short-term interest rates due to inflation worries.** While inflation was fairly negligible at the time, economists feared the effects of the roaring economy on an already tight labor market and rising energy prices.

Energy prices, especially oil, began to rise in the second quarter following supply shortages and a resistance from OPEC to meet the demand. At one point, oil approached $40 a barrel. In a proactive measure, the Fed quickly raised Fed Funds by 100 basis points over the course of the year to limit aggregate demand. Toward the end of the quarter, the flight to quality benefited value stocks, as investors preferred the safety of mature multinational companies over volatile technology names. The euro continued its slide to the $0.89 level, only to stage a slight comeback during June. Still, macro managers missed the boat on both the yield curve inversion and euro rebound, suffering one of their worst quarters in recent history. The Hennessee Macro Index declined –5.4% during the second quarter, again failing to outperform the S&P 500, which declined –2.65%.

Fed tightening finally began to catch up to the economy in the third quarter, as economic data began to signal the end of the robust economy. Counter-intuitively, the equity markets rose in August on the news of a weaker economy, and investors began to speculate about possible Fed easing in the foreseeable future. By the end of the third quarter, this short-lived rally was wiped out when deteriorating corporate fundamentals reared its head in the technology markets. Investors' perception of technology stocks had turned 180 degrees from January to August. Instead, macro managers tried their hand at the euro, which seemed poised for a return to par. However, the euro's rally in June proved short-lived, as the ill-fated currency plunged 15% between the beginning of July and the end of September. Despite these factors, the Hennessee Macro Index finally outperformed the S&P in the third quarter, gaining +2.85%.

The fourth quarter spelled relief for macro hedge fund managers, as the Hennessee Macro Index advanced +7.90%. Despite the decline in the equity markets, macro managers found opportunities in the currency, fixed income, and commodity markets. **As many managers had long expected (and had previously lost money on), the euro rebounded to $0.94 by year-end from a low of $0.85 on September 20 following several interventions by the European Central Bank to boost the currency.** Furthermore, the Treasury yield curve began to correct to its typical upward sloping position due to the end of the Fed's tightening cycle and expectations of easing following the appearance of the "R-word" in newspapers. Most managers anticipated this correction, as an upward sloping yield curve is necessary to create an incentive for banks to lend again in an effort to improve dismal economic conditions. Additionally, oil prices eventually subsided between $25-28 a barrel from near $40, upon release of the U. S. strategic oil reserve. Macro managers were able to resoundingly rebound in the fourth quarter due to profitable trades in both oil and the euro.

Going into 2001, macro managers are looking for more opportunities in the commodity, fixed income, and currency markets, after apparently missing most of the opportunities over the past two years. As the equity markets seem unwilling to yield returns in excess of 20%, this may be the time to take advantage of volatility in other asset classes. While most investors are discounting an additional 50 basis point easing over the next three months (in addition to the surprise 50 basis point reduction on January 3, 2001) economic growth should respond positively. Many managers are also beginning to take positions in the high yield markets, as a few believe credit quality problems have subsided and spreads should tighten. Recent high yield offerings have been over-subscribed, signaling a possible peak to high yield spreads.

Given the good news of added liquidity and Fed easing, many still believe the U.S. economy is in for a hard landing as it slows over the next six months. Economic data continues to pour in displaying the rapid slowdown. Consumer confidence, consumer spending, manufacturing, and capital spending have fallen dramatically in the last six months. Furthermore, the extent of the Fed's actions may be limited, as inflation worries have not disappeared. Unemployment remains at 4.0% and average hourly wages continue to slowly climb upward. Energy prices continue to remain high, having increased following the Fed's easing on January 3.

Finally, we feel obliged to salute the recent departure of two of the industry's most prominent figures. While both blamed their exit on the rapidly changing market, it is ironic that the market quickly corrected to a more rationale environment shortly after their departure. The duo, long known for their superior performance and passionate risk taking, will be sorely missed.

Distressed
(YTD: +2.38% / DEC: +0.52%)

Distressed managers turned in positive returns of +0.52% for December however ended with a +2.38% return for 2000 as compared to 1999 (+24.8%) and the eight year annualized +15% returns. Managers noted more of the same as far as trouble spots were concerned.

Collectively, there are five specific areas that have caused the poor performance for distressed managers in December as well as through most of 2000. These include a credit crunch, lack of liquidity, tight monetary policy, rising default rates and the collapse of tech and the NASDAQ.

The previous statement includes: a.) on the credit side, the OCC and the Federal Reserve have pressed lenders to tighten their standards restricting waivers and covenants, b.) the consolidation of many Wall Street firms has reduced dealer liquidity and capital, c.) the tightening of monetary policy by the Fed, with six rate increases in 15 months, has curtailed borrowing, d.) a rise in default rates from 3% in 1998 to 6% today to an estimated 9% in mid 2001 has stalled the high yield markets, and e.) the massive price correction in the NASDAQ impacted equity and bond prices across the board.

Distressed managers did well during the first quarter showing +3.7% returns for the period. Most managers suggested that returns came from a continued restructuring of many companies within the healthcare industry. The fourth quarter of 1999 and first quarter of 2000 were ripe with failures as over one tenth of the nations nursing homes filed for bankruptcy as a result of excessive borrowing as companies prepared to expand services in order to accommodate the aging population. The failure was exacerbated by changes and cuts in Medicare spending.

By the end of May many distressed managers had given back most of their returns and the Hennessee Distressed Index was up +1.7% for the year. Fallout from the tech slide during the second quarter had taken its toll on everyone. Furthermore, several managers had cited their concerns over widening credit spreads as junk issues were being priced lower and lower and the percentage trading at distressed levels was increasing quickly. The managers that did not take these signs seriously were hurt here and worse later.

Moody's default rate showed an increase to over 6% by August and their June 2001 indications were for further increases to 9%, which is near the 10.3% level last seen in 1991. Furthermore, their analysts have been busy downgrading debt. They had downgraded 24 issues from B3 to CCC in 1997. This figure grew to 70 in 1998 and again to 98 by 1999. Through the fourth quarter, they had downgraded over 115 issues. Furthermore, over 32% of all high yield debt is trading at distressed levels of over 1000 bps over U.S. Treasuries!

It was also during the third quarter that managers watched as the movie theater industry was shaken by defaults from big name showplaces like United Artists, Silver Cinemas, Edwards Theaters and Carmike Theaters. The industry had leveraged itself and overbuilt. This raised questions whether other movie houses, like Imax, might follow suit.

The fourth quarter saw even more trouble as several big names have filed for bankruptcy. Montgomary Ward and Bradlees, all old and established names, have each seen their own share of difficulties while Xerox was flirting with default. These actions also raise concerns with industry peers as well as real estate trusts going forward. For example, Montgomary Ward and Bradlees will flood the retail markets with low priced product in their liquidations, which will hurt other retailers right after a soft holiday season.

Distressed managers say that there is a difference in the types of businesses that are having trouble today versus those that defaulted in the early 90's. Currently, managers suggest that they are seeing three types of defaults. First, the new technology 'business plan companies' or those able to raise millions in cash without evidence that the company could actually make money. These include many telecommunications and internet related businesses. Many of these are not savable. Second, there are those that were not able to adapt to the demands of new technology and as a result lost product space. For example, Mongomary Ward and Bradlees have lost out to the Wal-Mart's while Olivetti lost out to an era of word-processing. These, too, don't look salvageable. Lastly, there are those that will be reorganized and restructured, such as steel manufacturers like LTV, and the potential reorganizations like Xerox. Distressed managers must distinguish between these options.

What most managers have noted is that today is quite different from the early 90's. In those days, many of the distressed companies were cases of "good companies with bad balance sheets". Today the danger is that there are many 'bad companies' out there.

Most managers agree that the markets are cheap today by historical standards, but, if we have a recession, they will get cheaper. Buying opportunities may be better after another downturn is well recognized. Furthermore, there is agreement that when the turn is made, it should provide ample long-lasting returns. For example, high-yield bonds returned +43% in 1991 followed by +17% in 1992 and +19% in 1993.

Merger Arbitrage
(YTD: +17.49% / DEC: +0.97%)

Merger arbitrage managers proved their worth this year as they gained +17.49% for the year compared to a loss of –10.14% for the S&P500 and –39.28% for the NASDAQ.

January was an interesting month for the Merger Arbitrage community, as most managers performed quite well despite some high profile deals encountering trouble. February was a great month for merger arbitrage managers as merger activity in Europe remained strong. The Vodafone takeover of Mannessman provided exceptional gains as Vodafone was able to negotiate an appropriate bid for Mannesmann. **Overall, merger activity continued at a torrid pace around the globe in the first quarter**. According to Thompson Financial Securities Data, worldwide mergers and acquisitions accounted for $1.166 trillion for the quarter, eclipsing last quarter's record breaking volume by 7.3%.

Just as several spreads widened significantly during the month of March, the same spreads tightened during April, resulting in considerable mark-to-market gains for managers. Widely held positions in U.S. West/Qwest and Media One/AT&T tightened during the month after blowing open in the previous month. Additionally, several deals closed during the month of April, allowing managers to realize gains on a number of positions. While arbitrageurs were able to gain significantly in April due to a number of hostile or competitive bids, May was a return to traditional merger arbitrage investing, as the performance can be attributed to the standard tightening of spreads. **How-**

ever, during the second quarter of 2000, the number of U.S. mergers and their market value fell one third in comparison to the second quarter of 1999. This came as no surprise given that in the three years ended 1999, domestic M&A activity totaled $3.3 trillion, which was more than the entire previous 26 years combined.

The positive returns for merger arbitrage managers in July can be attributed to the result of deals closing in July, as well as, the tightening of spreads of other deals hitting major milestones. Among the top performing deals were Hannaford Brothers/Delhaize, Lycos/Terra and CCB Financial/NationalCommerce. While deal flow began at a snail's pace in August, it ended with a fervor as the pace quickened going into September. Among the top performing deal closures in August was Verio Inc/NTT which had been a loser for the last several months because it was caught up in a national-security review process. The U.S. announced $520 billion in merger and acquisition activity for the period ending September 30, 2000. Much of this activity can be attributed to an increase in European companies acquiring U.S. firms during that time period. **Through the end of the third quarter, worldwide M&A volume exceeded $2.68 trillion on 27,300 announced transactions.** That compared to $2.28 trillion in worldwide M&A activity announced in the first nine months of 1999.

Despite market volatility, the level of mergers continued at strong levels in October. The most active sectors were financial institutions, insurance, utility and technology. **However, deal flow took a turn for the worse in November and December as is typical when the equity markets take an extreme downturn.** This volatility and downturn led to spreads widening in many merger arbitrage deals. Furthermore, the reluctance of the Fed to lower interest rates continued to affect the financing issues with many arbitrage deals. Lastly, due to declining prices, most deals included a significant cash portion and a collar in which the offer changes between different ranges of the stock price.

Despite the cautious approach of many merger arbitrage managers in the latter quarter of 2000, 2001 definitely holds some promise of increased activity. With the nomination of George Bush as President, the regulatory outlook will become more favorable due to expected changes at the helm of the FTC. Furthermore, valuations of many beaten down tech and telecom stocks are becoming more attractive and there should be continued consolidation within this sector. Additionally, the Fed's decision to lower interest rates by 50bps. recently should help stabilize the equity markets allowing for a better climate for new issuance and merger activity.

Convertible Arbitrage
(YTD: +8.61% / DEC: -1.74%)

Convertible Arbitrage hedge fund's performance was off -1.74% in December. This brings the year's returns to +8.61%. December caps the worst year convertible arbitrage managers have experienced since 1998 when it was up +5.97%. The index has returned an annualized +10.35% since 1993.

December was a tricky month to make money in this strategy. In the absence of an anticipated fourth quarter equity rally, prices continued to fall and credit deteriorated further. In fact, many managers noted that with spreads as wide as they are, bond prices fall off more rapidly as the underlying stock prices fall. Furthermore, with the increased volatility in the markets, price deterioration requires greater attention to hedges than in normal situations. These factors seem to have hurt many managers again this month.

New issuance of convertible bonds set a record in 2000. The markets saw over $61 billion from 146 separate convertible issues come to market. This represents an increase in dollar amount from 1999 (also a record year) by over 50% when there were 112 new deals brought forward totaling $41 billion. The excess issuance in 2000 over 1999 came mainly during January, February and March, specifically from telecom, tech and biotech issues. For that quarter, issues from these sectors represented over 68% of the total.

New issue prospects for 2001 are expected to be healthy, though they are not projected to surpass 2000's record year. Most managers agree that the market will have little tolerance for new deals from the technology and telecom sectors after the surprises many suffered through in 2000. For instance, the excessive first quarter 2000 issuance was loaded with many lower rated tech and telecom start-ups that were looking to the convertible market for financing.

There is a consensus among managers for 2001 that more attention will be paid to credit quality from the new issuers. Towards the end of 2000, there was a noticeable improvement in credit quality with more investment grade names coming to market as compared to the first quarter. The expectation is for this trend to continue. While there may be an increase in healthcare issues, it will not be as fast and furious as tech was in 2000. Furthermore, many expect merger related financing activity to be a source of convertible issuance. Currently, financing expenses associated with widening credit spreads in the high yield markets have led corporations to turn more and more to lower cost financing. Financing with junk has grown expensive and so alternatives are sought. Managers expect that the convertible market will continue to be a source of capital for these activities.

Deterioration of credit spreads moved into the convertible market during the fourth quarter of 2000. Faltering credit quality has been rampant in the junk bond market throughout 1999 and 2000. The average spread over treasuries for junk bonds grew throughout the year from 550 bps in January 2000 to over 900 bps by December. As spreads widened, the fallout was felt in the high yield markets and by the fourth quarter took its toll on the convertible bond managers as a whole. Many convertible managers not only suffered down month performance in the fourth quarter, but suffered their largest losses (i.e. drawdown) in three years.

Managers are taking a cautious approach to credit quality and many feel that the convertible market will begin to see defaults increase following what has been predicted for junk bonds.

Negative monthly performance is unusual for convertible arbitrage managers. **However, the under performance from many of the convertible managers came as they were trying to pick up extra return by reducing their hedge ratios as well as going lower in credit quality.** Taking a directional bet in the market had been successful tactic employed by some convertible arbitrage managers early on in 2000 as the markets were generally trending upwards. However, when credit spreads began to widen and those poorer credits started to surprise investors with negative earnings forecasts, hedge fund managers that were less than delta neutral got hurt.

Research shows that the managers that didn't get caught in the fourth quarter shakeout were, in most cases, those that were underperforming their peer group during the first and second quarter. **Some common factors for the success of these managers seems to have been a.) maintaining a delta neutral portfolio, b.) avoiding telecom and tech issues, c.) avoiding the lower credit issues and d.) not falling for the attractions of volatility and aggressively trading their positions.**

Volatility in the markets has been unusually high throughout 2000, impacting the option portion of the convertible bond premium, as high volatility

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STYLE	DEFINITION	Typical Holding Period of Manager's Position	Expected Volatility
CONVERTIBLE ARBITRAGE	This type of arbitrage involves the simultaneous purchase of a convertible bond and the short sale of shares of the underlying stock. Interest rate risk may or may not be hedged.	Medium Term	Low
DISTRESSED	Primary investment focus involves securities of companies that have declared bankruptcy and may be undergoing reorganization. Investment holdings range from senior secured debt (uppermost tier of a company's capital structure) to the common stock of the company (lower tier of the capital structure).	Medium/Long Term	Moderate
EMERGING MARKETS	This strategy focuses on investing in lesser-developed, non-G7 countries whose financial markets provide exploitable pricing inefficiencies. Popular geographic regions include Latin America, Eastern Europe, the Pacific Rim and Africa. Asset classes range from equities and bonds to local currencies.	Short/Medium Term	High
EUROPE	Style predominately entails investing in and shorting of European equities that may include peripheral eastern and central regions.	Medium Term	High
EVENT DRIVEN	This strategy combines merger arbitrage, distressed and high yield investing, in addition to value driven special situation equity investing. Usually dependent on an "event" as the catalyst to release the position's intrinsic value.	Medium Term	Moderate
FINANCIAL EQUITIES	Style predominately entails investing in and shorting of bank stocks and other financial institutions.	Medium/Long Term	Moderate
FIXED INCOME	Employs a variety of fixed income related strategies ranging from relative value based trades (basis, TEDs, yield curve, etc.) to directional bets on interest rate shifts. Style also includes credit related arbitrage, which typically involves the purchasing (or selling) of corporate issues and the simultaneous selling (or purchasing) of government issues.	Short/Medium Term	High
GROWTH	Style predominately entails investing in and shorting stocks of companies that exhibit an acceleration (or deceleration) of earnings growth, revenues and market share.	Medium Term	Moderate
HEALTHCARE/ BIOTECH	Style predominately entails investing in and shorting of medical related stocks, which include biotechnology, pharmaceuticals, HMO's, medical information, etc.	Medium Term	High
HIGH YIELD	Style predominately entails investing in and shorting of non-investment grade corporate bonds, which offer attractive coupon yields. Interest rate risk may or may not be hedged.	Medium Term	Moderate
INTERNATIONAL	Participants of this style tend to be bottom-up stock pickers within global regions that are undergoing economic changes. Conversely, International managers will short global equities whose underlying company fundamentals remain poor amidst a backdrop of poor economic conditions.	Medium Term	Moderate
LATIN AMERICA	Style predominately entails investing in and shorting of equity and/or debt within the various Latin American regions.	Medium Term	High

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STYLE	DEFINITION	Typical Holding Period of Manager's Position	Expected Volatility
MACRO	Dominant investment theme is to capitalize on changes in the global macroeconomic environment through participation in the various capital markets. A tops-down methodology allows managers of this strategy to utilize all asset classes (equities, bonds, currencies, derivatives) available in the global capital markets.	Medium Term	High
MARKET NEUTRAL	Long and short equity exposure with nearly no dollar net exposure. In theory, systemic market risk is greatly reduced by being dollar, beta, sector and market cap neutral. Strategies within this style range from quantitative modeling ("black box," or statistical arbitrage) to fundamental pairs trading.	Short/Medium Term	Low
MERGER ARBITRAGE	Style typically involves the simultaneous purchase of stock in a company being acquired and the sale of stock in its acquirer. Many merger arbitrage managers attempt to mitigate deal risk by engaging only in strategic takeovers after they are announced.	Medium Term	Moderate
MULTIPLE ARBITRAGE	Category includes hedge funds that employ more than one arbitrage strategy. Portfolio manager opportunistically allocates capital among the various strategies in order to create the best risk/reward profile for the overall fund. Common strategies include merger arbitrage, convertible arbitrage, fixed income arbitrage, long/short equities pairs trading and volatility arbitrage.	Medium Term	Moderate
OPPORTUNISTIC	Long/short equities managers who maintain a flexible net exposure to reflect the changing dynamics of the market on a minute-to-minute or daily day trading basis. Managers typically utilize technical and/or fundamental analysis. Portfolio turnover can be high as managers implement trading disciplines such as tight stop losses and defined exit target prices.	Short Term	Low/ Moderate
PACIFIC RIM	Style predominately entails investing in and shorting of Japanese and other Asian equities. Many managers also include Australia and New Zealand as regional investment choices.	Medium Term	High
REGULATION D	The investments are fully hedged in the form of convertible securities, which are convertible into common stock of the issuers at floating prices set at a discount to the historical price of the stock. The investment is typically held until the registration of the underlying common stock is declared effective by the SEC (normally 75 to 90 days) at which time the manager can sell the registered shares in the public markets and realize the hedged spread between the market price and the discount conversion price of the stock.	Short Term	Low/ Moderate
SHORT BIAS	The entire portfolio consists of short sales, usually fundamental, technical or event driven. This style can be used as a hedge for long-only portfolios and by those who feel the market is approaching a bearish cycle.	Medium Term	High
TECHNOLOGY	Manager invests at least 50% of partnership capital in technology related sector.	Medium Term	Moderate
VALUE	Style predominately entails investing in undervalued equities which trade below "intrinsic," or "net asset value." Undervalued securities may be defined as, but not limited to, equities with low P/E ratios or low price-to-book value ratios. Managers also focus on companies that generate substantial "free cash flow" and pay special attention to the use of the cash to retire debt, institute share repurchase programs, and other methods to realize shareholder value.	Long Term	Low/ Moderate

can increase premiums. To capitalize, managers may reduce their hedge ratio enabling them to capture more of the upside. Aggressive portfolio managers will sometimes trade volatility to their advantage in hopes of increasing returns.

Throughout the year, volatility, as measured by the volatility exchange (VIX), has ranged between 20 and 30, with the average around 26. In periods of extreme volatility, this measure has increased dramatically. In late March and early April the VIX spiked above 40, an extreme measure, before settling back to averages between 20 and 25 after two to three weeks. During this time, the NASDAQ market had been challenged by the first round of earnings warnings and valuation related selling of technology stocks. This led to performance of -15.6% in March and -11.9% for April. Hedge fund managers were able to capitalize on this and turned in performance of +1.85% in March and +0.64% in April.

During the fourth quarter, volatility was again measured at historical highs. The VIX was measured at over 30 during the entire quarter. Furthermore, the NASDAQ suffered its worst losses in the fourth quarter as concerns over technology and a slowing economy continued. This time, managers looking to take advantage of the high volatility appear to have paid the price. Credit spreads quickly widened in the fourth quarter, by over 200 bps in one month alone.

In all, hedge fund managers are optimistic for 2001. Expectations are for a good flow of new issues to hit the market, and most should have higher credit quality. Opportunities are seen in healthcare and in merger financing, although many point to a more conservative start to the year. Credit spreads are expected to widen further, however, most believe that their expansion will not be as dramatic as seen during the fourth quarter. Finally, there seems to be agreement that the high volatility we have seen of late will subside and more normal market activity will prevail.

International
(YTD: +9.11% / DEC: +2.44%)

International managers in the Hennessee Hedge Fund index had a good year compared to relevant benchmarks such as the MSCI EAFE U.S. $ Index. The managers in the index were up 9.11% for the year while the MSCI EAFE U.S. $ Index was down –14.71%.

During the early stages of 2000, many international managers anticipated further rate hikes within the U.S., resulting in a ripple effect taking hold in the global markets, thus tightening monetary policy, setting the scene for a difficult investment environment. As a result, manager's portfolio allocation to new technology/media stock continued to decrease. However, with the markets making an impressive comeback in March, International managers finished with a gain of +3.46%, bringing their year-to-date back into positive territory.

International managers were down –2.99% in April as the European, Pacific Rim and Latin American sectors were drastically down. International managers staged somewhat of a comeback in the latter half of the quarter as managers were able to find ample opportunities around the globe to allocate capital.

In July, all of the equity markets from around the world declined, as the MSCI EAFE declined –4.17%. **Spillover from the technology markets in Europe and the U.S. created a difficult environment for international managers to make money.** However, managers did well in August as the Fed and European Central Bank moved to a more neutral stance. Considering the relatively weak performance of all the major global regions during the month of September, managers in the Hennessee International Index posted an impressive gain of +1.67%.

October was a volatile month for global markets as a number of disappointing earnings reports from global corporations contributed to a significant drop in the equity markets. Although the volatility increased in the global markets throughout the remainder of 2000, International managers were able to outperform the MSCI. **Managers expected the market to stabilize once the Presidential Election was resolved but this was clearly not the case.**

Many managers remain cautiously optimistic regarding the international markets in the coming year. Falling interest rates, oversold equities and the likelihood of increased liquidity are reasons for this optimistic tone. According to some economists and managers U.S. GDP growth is expected to be 2.4% for 2001(down from estimates of 2.8%), while global growth is forecasted to be at 2.9% with Asia at 5.8%. Given higher growth rates and lower valuations, a reallocation to the overseas market is likely to occur over the course of year.

Europe
(YTD: +13.45% / DEC: +1.93%)

European managers had to contend with a wide variety of market issues during 2000. Nonetheless, managers in the Hennessee Hedge Fund Index posted a return of 13.45% for the year as compared to a loss of –14.71% for the MSCI U.S. $ Index and –10.14% for the S&P500.

European managers performed well during the 1st quarter of 2000. Despite the manager's impressive returns several concerns arose. **The euro fell below parity against the U.S. dollar, raising concerns about inflation in the euro-zone countries.** Many hedge fund managers were defensive and opportunistic during the quarter waiting to see the ECB's reaction to the fall of the euro. Nevertheless, several sectors continued to perform well during the quarter, including the technology, telecom and media sectors.

Managers had a tough time in Europe during the second quarter. Many factors contributed to the negative performance including the long anticipated sell-off the technology sector. **Managers decreased their exposure to medium and small cap stocks due to poor market liquidity and the increased volatility.** The ECB raised interest rates during the quarter in an attempt to prevent imported inflation as higher oil prices and a weak euro had been driving up the euro area price inflation. The euro continued to push higher after bottoming out in late April and May.

Despite a brief rebound during the latter half of the second quarter, the euro continue to deteriorate. **The demise of the euro continued to frustrate European Central bankers and policy makers.** As a result, the ECB intervened on behalf of the euro to try to provide some stability. However, the longevity and force of the U.S. economic expansion overwhelmed the European economy. In addition, high oil prices also weighed on the European debt and equity markets. Dollar denominated hedge funds continued to dramatically underperform euro denominated funds as a result.

Despite the beaten down prices of many technology stocks, managers were reluctant to allocate cash to these names. **Cash levels continued to increase and net exposures remained low.** Furthermore, many managers avoided technology issues during September due to expectations of earnings warnings.

The theme remained the same during the fourth quarter. The continued volatility in the European equity markets caused many managers to adopt a defensive posture. With clear evidence that euro area growth had slowed, the key question was where the region would go next. Managers were concerned about oil prices, moderation in household spending and export growth due to a slowdown in global trade.

Many European managers were finding it harder to pick so-called defensive stocks that were still cheap. **Managers were and continued to be divided on whether there will be a hard or soft landing in the U.S. and the impact on European markets.** However, valuations appeared to be much more reasonable toward the latter part of the quarter as most of the downward earnings revisions had already occurred.

While many managers are encouraged that the U.S. Federal Reserve has shown leadership in starting to cut interest rates, concern exists that the U.S. economy will continue to slow down for some period of time. As a result, the impact on earnings and consumer confidence in the U.S. will affect European companies with U.S. exposure. Against this backdrop, most managers continue to take a cautious approach until the overall markets become more stable. However, on the bright side, many managers and economists believe that Europe will outperform the U.S. on a relative basis and that should help the capital outflow issue. **Overall, weakness in the euro, market volatility, margin debt, economic growth and capital outflows will continue to be the main themes in 2001.**

Pacific Rim
(YTD: -6.52% / DEC: +0.57%)

Pacific Rim managers gained +0.57% for the month of December, bringing their performance for 2000 to –6.52%. In comparison, the Nikkei 225 lost –7.07% in December and was down –27.19% for the year, demonstrating the ability of hedge fund managers to mitigate losses in down markets.

Having posted a +41.85% return for 1999, Pacific Rim managers entered 2000 with great expectations. However, the first quarter of 2000 showed the initial signs that 2000 would not be a repeat performance of 1999. The most profitable positions in the technology and telecom sectors of 1999 declined sharply to open 2000, and did not rebound during the first quarter. Investors began to grow wary of companies with weak fundamentals and negative earnings. Additionally, Japan reported negative GDP growth for the fourth quarter of 1999, the second consecutive quarter in negative territory, signaling that a recessionary period had begun in earnest. The illness of P.M. Obuchi and ascension of P.M. Mori added political instability to the mix. The first quarter ended with managers concentrating to a greater degree outside Japan and looking region-wide to the technology and banking sectors for growth.

The second quarter opened brutally for managers, with the move out of the technology sector intensifying violently across the region. Managers were stymied in their efforts to control the damage by the lethal combination of skyrocketing levels of volatility and the disappearance of liquidity. The underdeveloped markets outside of Japan offer limited opportunities to hedge during periods of relative calm, let alone during times of turbulence. As a result, while managers were able to outperform the relevant indices, they still recorded significant losses for the quarter. Managers reduced market exposures, shifting to greater cash positions as well as focusing on the more developed markets of Japan, Hong Kong and China in an effort to combat volatility. The environment of political uncertainty in Japan was exacerbated by the narrow margin by which the LDP won the June elections in what was expected to be a land slide victory. Although reactions were mixed, the consensus was that the results of the election were a call for further economic reform. Previous efforts toward reform were beginning to bear fruit in the shape of better than expected earning for a number of Japanese companies, as well as the first stages of increased domestic demand for equities. Outside the Japan, the first signs of potential credit problems in the region were manifesting themselves with the Korean carmaker, Hyundai. The quarter ended on a positive note, with the telecom and banking sectors advancing in June from lows established earlier in the quarter. Pacific Rim managers advanced as the quarter came to a close, completing the first half of 2000 down –0.15%.

The third quarter began similarly to the previous two, i.e., in negative territory. The perception of increased demand by Japanese consumers quickly dissipated in the face of the bankruptcy of the large department store Sogo. Although a result of a commitment to economic reform, the Japanese government's break with tradition and refusal to bail out Sogo caused widespread concern by investors regarding potential credit risks in the region. The Bank of Japan's decision to raise interest rates in August, which ended the zero interest rate policy, was viewed positively, as yet another sign of reform. With the exceptions of China and Hong Kong, the nations outside of Japan again proved to be difficult for managers to navigate, and they reduced their exposures to those areas accordingly. China and Hong Kong enjoyed superior performance in the third quarter, buoyed in part by what was widely believed to be China's imminent entrance into the WTO. However, as the quarter came to a close, a series of factors conspired to doom the sector. A sharp sell off in technology shares in Pacific Rim countries followed a decline in the U.S. markets. High oil prices and a potential slowdown in the U.S. and Europe further impacted the export dependent economies of the region. Japan once again strove to show signs of an improved outlook, but this would ultimately not prove to be the case. Managers constructed more defensive positions, looking to the fourth quarter with caution.

The fourth quarter started negatively, as had the three previous quarters. Managers recorded slightly negative to flat performance for the early part of the quarter in markets that were sharply lower. Moving to defensive positions and cash, while focusing on the larger more liquid markets in Hong Kong, China, and Japan, proved to be prophetic. Managers were able to avoid heavy losses that they would have otherwise incurred, had they been invested more aggressively. Japan, beset by a series of political scandals and bankruptcies of two large insurance companies, found its markets hovering near multi-year lows. **High oil prices and decreased demand for exports, coupled with further declines in the U.S. technology sector, caused region wide selling. Problems with the public's perception of the Japanese government persisted throughout the fourth quarter, with the Mori cabinet receiving an absurdly low +1% approval rating at the end of 2000.** The Tankan survey, the central bank's most important survey, revealed that consumer confidence and spending were sharply lower. Large Korean companies were plagued by credit problems. Even China, the lone bright spot in the Pacific Rim, caused problems for managers, with regulatory bodies displaying highly questionable and arbitrary behavior. While the broader markets of the Pacific Rim were down sharply, with the Nikkei down -27.19%, the Hang Seng down -11% and less developed countries down nearly 40% or more, hedge fund managers lost –6.52%. Their ability to outperform relevant benchmarks once again supports the efficacy of the investment style, especially in down markets.

As 2001 begins, managers remain cautious. As the U.S. economy slows, the Pacific Rim will have to look domestically for growth. Whether growth will be found is another matter. With most Pacific Rim markets down 10% to 50% in 2000, a large number of equities have fallen to potentially attractive levels. Managers remain divided over whether this represents a buying opportunity or if the markets will go lower still. **Data from Japan suggest that demand has weakened to an even greater degree, indicating that the economy will continue to falter.** Managers anticipate that these factors will translate into lower foreign exchange rates, lower interest rates, and greater assistance from central banks for distressed companies. **The consensus is that Hong Kong, which has historically performed well in climates of falling interest rates, provides the most promising prospects for 2001.** Managers will look for opportunities to short Japanese equities until the economy and the political situation show signs of stability. Wherever managers are focusing their efforts, they all agree that 2001 will be a time of great uncertainty and difficulty.

Latin America (YTD: -12.54% / DEC: +7.74%)

December was a bright spot for Latin America investors during an otherwise dismal year. Month end performance of hedge fund managers was up +7.74% versus the long only MSCI Latin America, which gained +4.49% and the JP Morgan EMBI+, a fixed income benchmark, which was up +4.06% for the month. However, for the year, the Hennessee Latin America Index, closed out down -12.54% compared to the MSCI which was down -14.92% for the year.

Regional performance for the month and year-end, as reported by the MSCI, was mixed. Brazil, the region's largest economy, was up +13.13% for December cutting the yearly loss to -8.65%. The turnaround was not as pretty in Mexico and Argentina, the next largest economies in the region. Mexico was down -2.59% for the month ending down for 2000 at -21.51%. Argentina fared worse with a monthly gain of +3.52% and a year to date loss of -26.08%.

Overall, the generally upbeat monthly performance can be partially attributed to the election results in the U.S.. A Bush presidency could further extend the reaches of NAFTA. Overall, the region faces business expansion and a GDP growth rate between 3 and 4%. Also, the extension of NAFTA could provide an additional spark. In Argentina, the IMF package seems to have restored calm to the markets, but expectations are that it will be a long-term struggle. Mexico again showed how dependent it is on the U.S.. The prospect of a slowing U.S. economy and surging Mexican economy (+6% GDP growth in fourth quarter 2000) led to market deterioration and currency vulnerability which has left a cloud over the outlook. Many managers, however, cite Brazil as an opportunity.

The year 2000 started off promising. By the end of March 2000, the Hennessee Latin America Index was up +6.85% against the MSCI Latin America, which was up +3.24%. Hedge fund managers were confident and the markets showed strength. The region had been showing signs that it would continue where it had left off in 1999 (MSCI +61%). GDP was growing rapidly while inflation and unemployment were falling.

However, the region's correlation to the U.S. markets quickly led it lower through the second quarter. The tech slide and fears of a global slowdown that impacted the U.S. markets during the latter part of 2000 negatively impacted Brazil, Argentina, Mexico and the like. Furthermore, political turmoil caused crisis as mentioned in earlier issues. For instance, Peru had a long and drawn out bribery scandal, Argentina also suffered political scandal (which led to an eventual $40 billion IMF bailout) and Mexico elected its first opposition president in over 70 years.

Telecom, media and technology issues, like those in the U.S., set back most equity based fund managers in the region. The larger more recognized names like TelMex, Telecom Argentina and Telebras were hurt for the period and many smaller and less known fell with the markets.

After a difficult 2000, managers have hope of a rally in 2001. Many site that prices have fallen farther than deserved and that valuations are historically cheap. Politically, the 2000 fallout looks to be resolved. At the corporate level, hedge fund managers say companies look like they are being managed better. The 1997-98 global crisis sharpened management teams and in turn, improved how businesses were run.

Assuming that oil prices stay low and that the U.S. cuts rates as expected, a 30% rally for 2001 is not out of the question. However, many agree that it is a specialist's region where stock pickers should do well. Furthermore, there is agreement that markets will either strongly outperform or under perform the other markets. There won't be a lot in between.

HENNESSEE HEDGE HOG CORNER™

The following are extracts from research related to hedge fund managers we monitor and do not necessarily represent the views of the Hennessee Hedge Fund Advisory Group:

1ST Quarter of 2000:

"2000 will not be a blow out year. Companies like AT&T, Compaq, Dell, Qualcomm, and Coke all have warned of slower growth. This is happening as rates are going up. **If the Fed doesn't stop tightening by the end of the second quarter, we will see another 10%-15% correction during the summer."**

"We have been and remain bullish on Europe. **Lower interest rates than the U.S. bodes well for a weaker euro and European exports.** The merger activity, growth in European earnings and the switch from bonds to equities by European institutions are all reasons why Europe will outperform the U.S. in 2000."

"We see the U.S. government(and other G-7 nations with surpluses) **retiring long-term debt** not only because it is a wise use of surplus budget capital, but it also **facilitates Japan to repatriate capital back to Japan to fund its own deficit problem."**

"Margin debt is at $240 billion (with a 6% jump in January). Most of this margin debt is in technology stocks. **If technology has a 20%+ correction, we will see panic selling due to margin calls."**

"To sum it up, the **market in technology is so expensive you are not buying stocks, but a "call on projected earnings."**

2nd Quarter of 2000:

"The week of May 5 was the first week in the last 10 years that a junk bond issue was not allocated. **The high yield market is dead."**

"The dollar is overvalued and once we see the economic slowdown Greenspan wants, we will increase our euro position."

"We are **long** market indices in France, Canada, Norway, Hong Kong, Sweden and Singapore. We are **short** market indices in U.S., U.K., Japan and Italy. We are market **neutral** in stocks for Germany, Spain, Netherlands and Portugal."

"We are short oil at $31/barrel and will cover at $25/barrel."

"We are short bank stocks with large credit card portfolios. We see a consumer credit quality problem, coupled with a highly leveraged consumer."

3rd Quarter of 2000:

"Convertibles, especially busted convertibles continue to be attractive and provide many hedging opportunities."

"We are short the yen and Japan's stock market. A slowdown in the U.S. will hurt their export economy which is the only bright spot in their economic picture."

"**High yield securities** currently trade at some of the widest spreads since the early 1990's; more than 600 basis points over the relevant U.S. Treasury. With spreads wide, and practicing good credit selection, this market becomes an excellent point to own credit risk."

"We are bullish on the U.S. market. The **FED's anti-inflation** policies helped spark investment in productivity-boosting technology. Business will continue investing in productivity if the labor market stays tight."

"It is not in Saudi Arabia's self-interest to keep oil prices above $30 a barrel indefinitely. **Oil** can go to $40 because on an inflation adjusted basis it is undervalued. In our judgement, oil prices would need to rise above $40 a barrel to seriously damage the economy."

4th Quarter of 2000:

"**We shorted the QQQ's** because choppy markets are good for shorting and we expect this type of market to continue through year end, the latest short figure for the month of September surpassed the previous record set in June of this year."

"There is growing evidence of a slowing economy, and the fears of a further rate hike diminished significantly. We are dramatically **increasing our holdings** of financial stocks and view this shift as a healthy development for the market."

"Looking at December/early-2001 rally that we expect, our **preliminary targets are 11,500 for the DJIA and the mid-3000's for the NASDAQ**. However, we believe that such a rally will give way to further weakness or retests sometime late in the winter or early in the spring."

'We expect **lower interest rates** to bring the economy in for a soft landing, but investors still need to be careful about credit exposure.'

"The U.S. equity market has been weak since Election Day, but the **fourth-quarter rally** that we have been expecting has been postponed, not cancelled, in our view."

Outlook for 2001:

"The **U.S. is headed for a sharp slowdown**, but not a recession, and that the Federal Reserve will ease further."

"We are **concerned about the continued high volatility** in world equity markets (the U.S. volatility index, the VIX, is still at one of its highest levels in a decade.)"

"We believe there are reasonable returns to be made in selected stocks within the European markets over the **next 12-18 months** but will continue to proceed cautiously."

"Historically, the equity market has usually had a double digit gain in the year following the initiation of a Fed rate cut campaign."

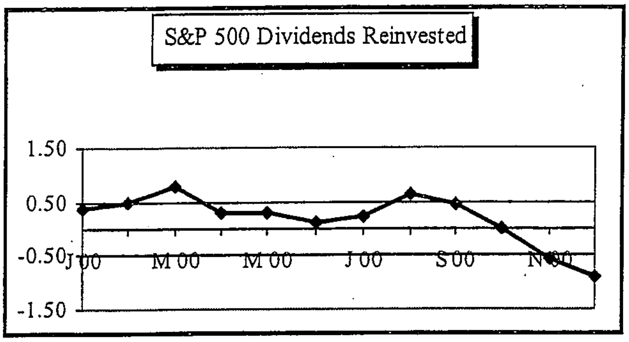
"We expect the Fed to cut the funds rate another **50 basis points** at the January 30-31 FOMC meeting, and think that the rate could be down to 5% by June."

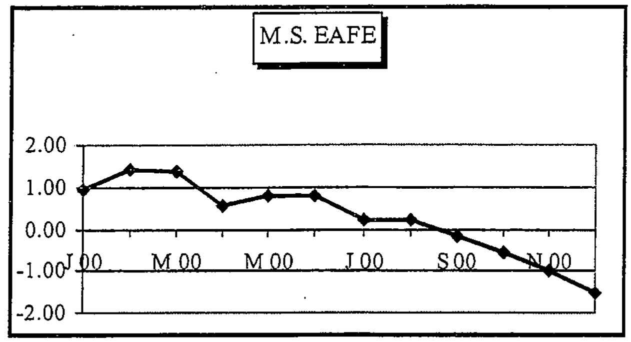
HEDGE HOG CORNER
Dow Jones Technical Analysis
January 2001

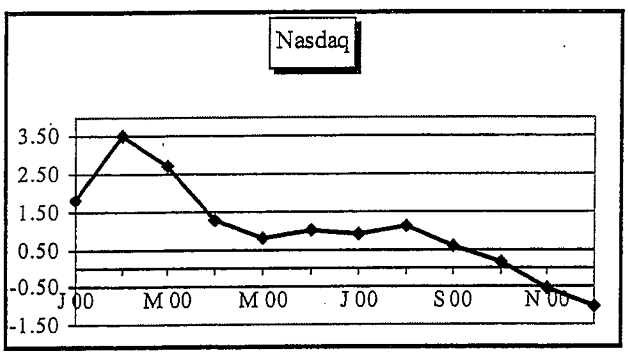
Dow Jones Close (1/10/01)	10,600
Short-term Trading Range	10,250-10,900
Upper Resistance Level I	11,000
Lower Support Level I	10,300
Upper Resistance Level II	11,500
Lower Support Level II	9,600
Accumulated Distribution	Neutral
Momentum	Negative
Money Flow	Negative
Relative Strength	Negative
Hennessee Ratio* (1/15/01)	1.21
Hennessee Ratio* (12/14/00)	1.31
Hennessee Ratio* (11/16/00)	0.69
Hennessee Ratio* (10/16/00)	0.55
Hennessee Ratio* (9/15/00)	0.63
Hennessee Ratio* (8/10/00)	1.69
Hennessee Ratio* (6/28/00)	1.00
Hennessee Ratio* (6/15/00)	0.45
Hennessee Ratio* (5/12/00)	0.46
Hennessee Ratio* (4/17/00)	0.53
Hennessee Ratio* (3/17/00)	0.86
Hennessee Ratio* (2/11/00)	0.29

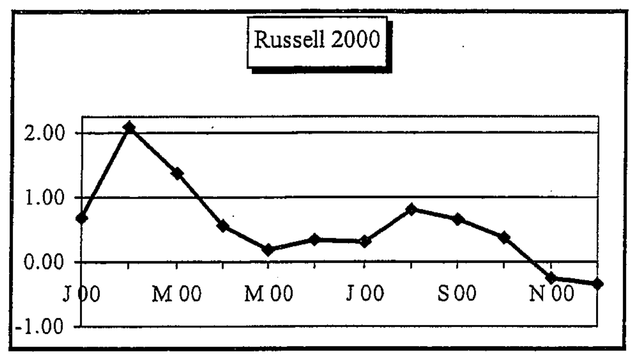
*Ratio of Dow Jones close to technical maximum upside potential and technical maximum downside risk potential. A ratio above 1.0 expresses more relative risk in the market than reward. Hennessee proprietary analytics are no guarantee of future returns.

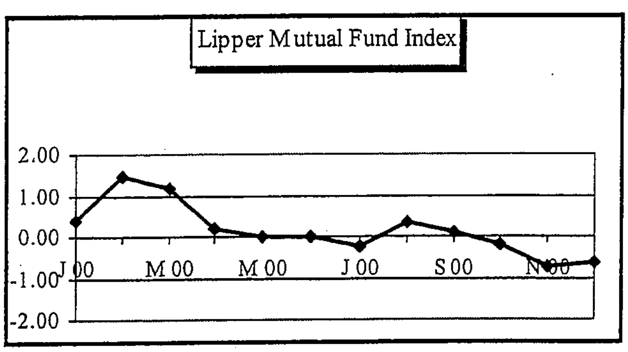
12 MONTH ROLLING SHARPE RATIO

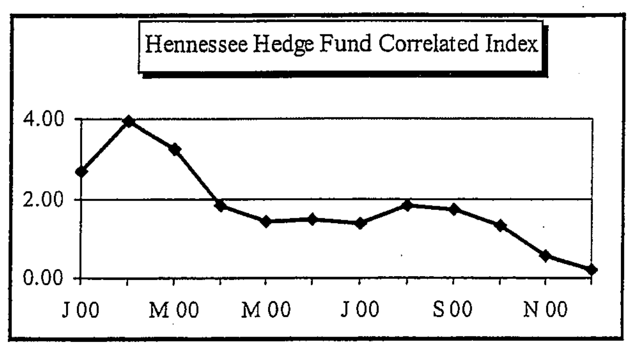








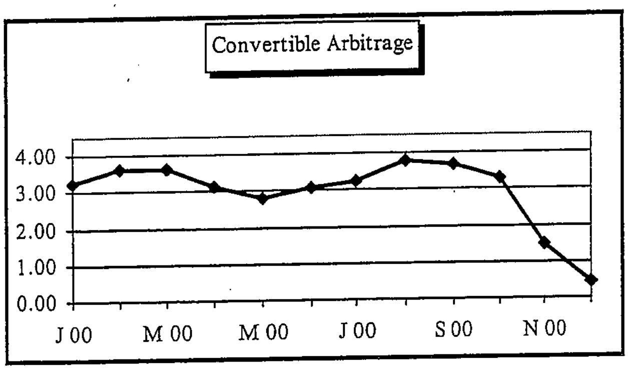


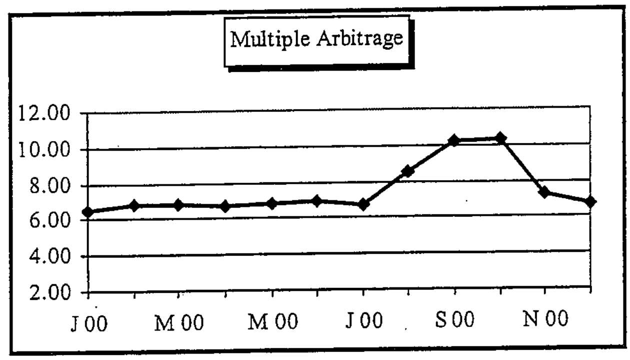


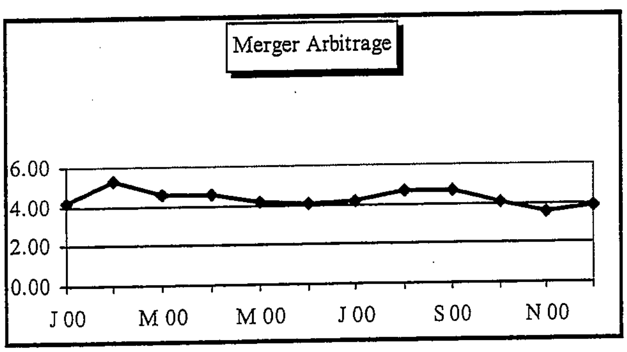
$$\textit{Sharpe Ratio} = \frac{\textit{Annualized Return - Risk Free Rate of Return *}}{\textit{Annualized Standard Deviation}}$$

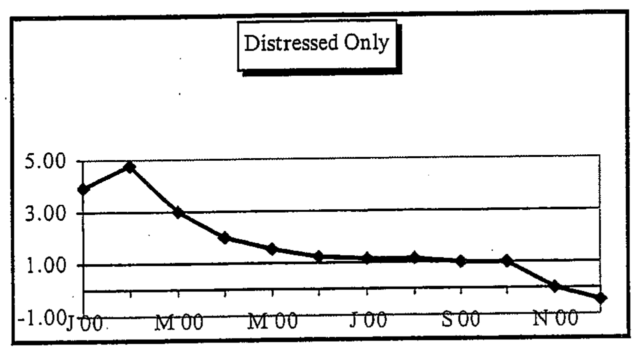
**90 day T-bill*

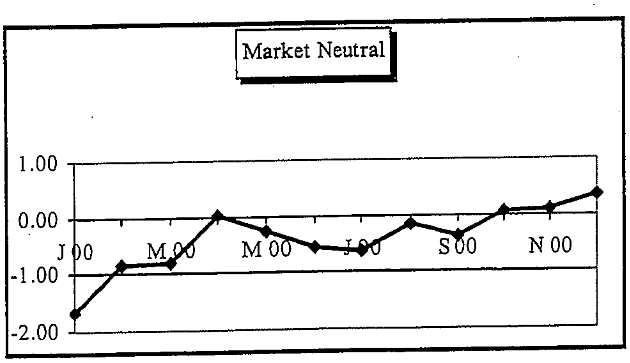
12 MONTH ROLLING SHARPE RATIO

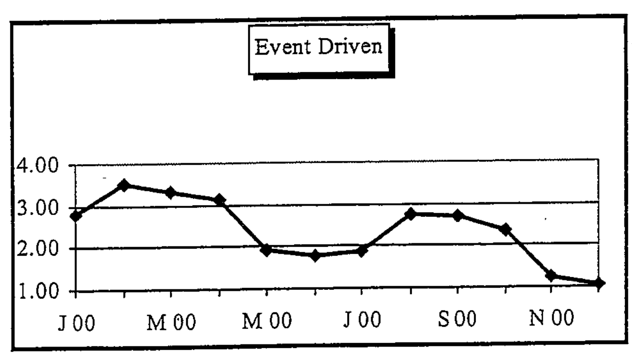












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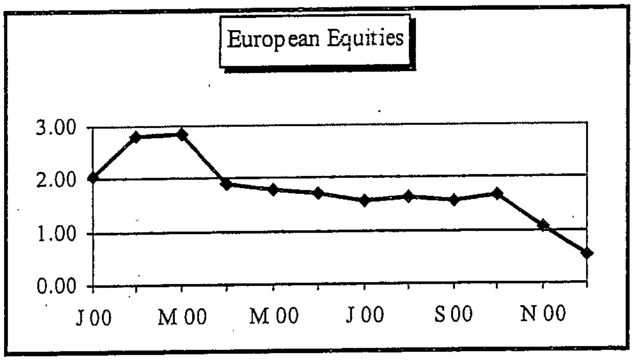
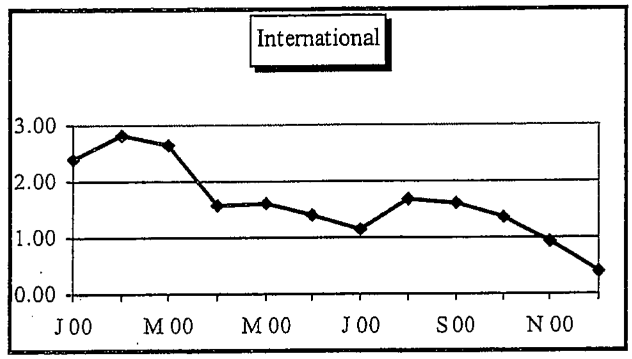
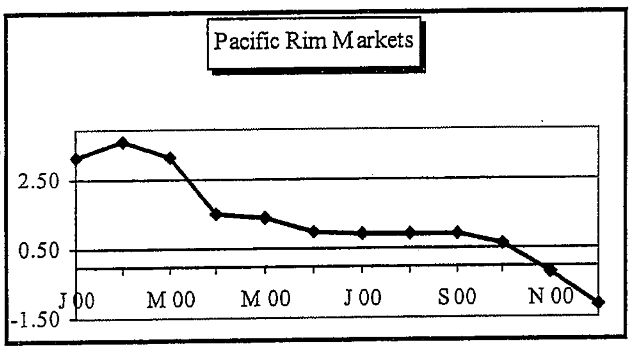
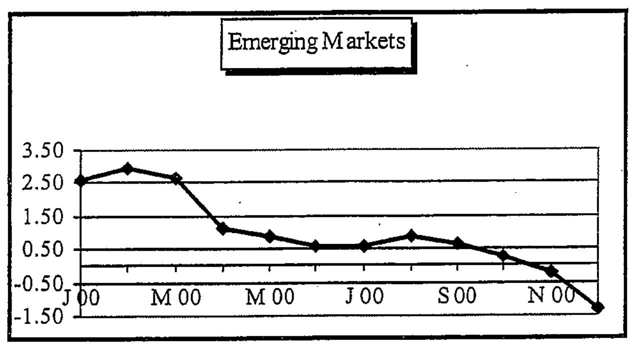
***90 day T-bill**

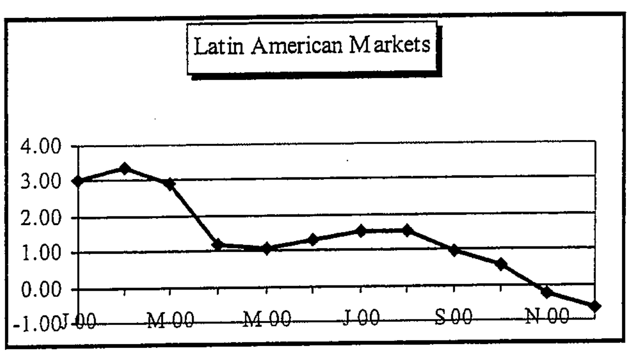
12 MONTH ROLLING SHARPE RATIO

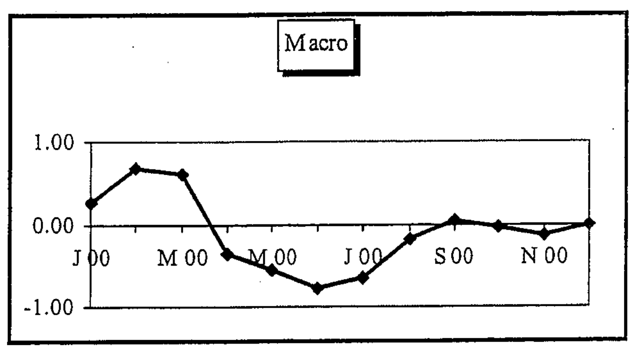












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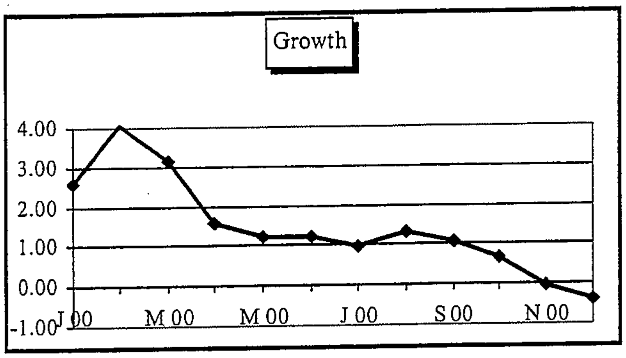
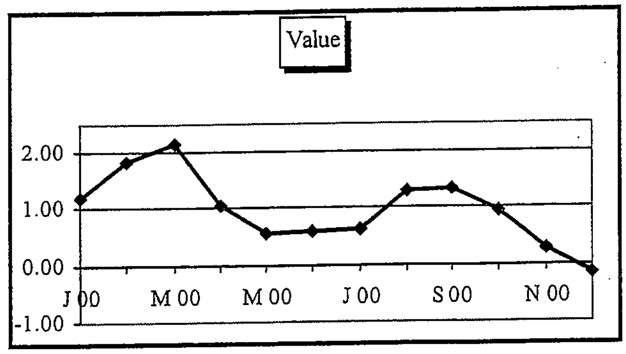
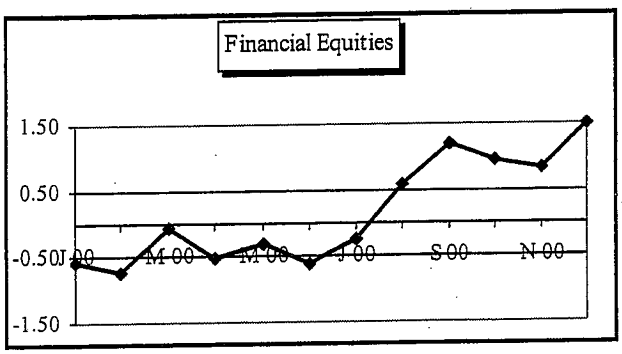
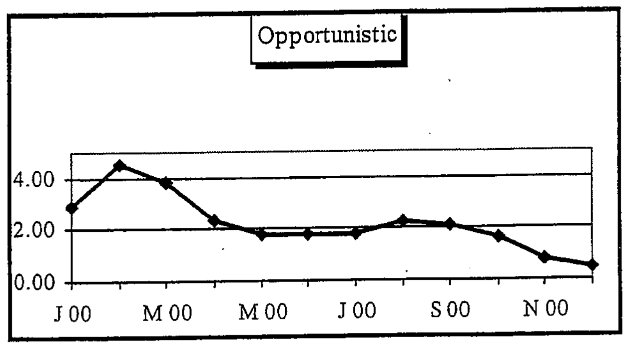
***90 day T-bill**

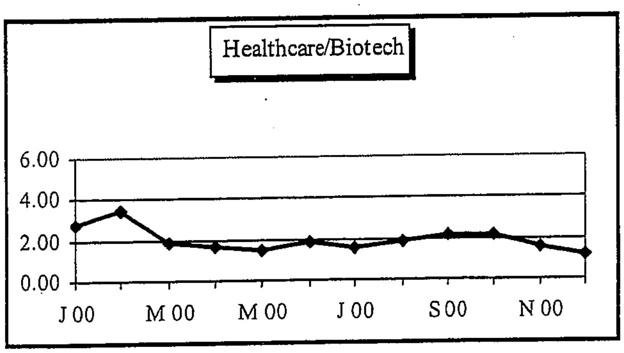
12 MONTH ROLLING SHARPE RATIO

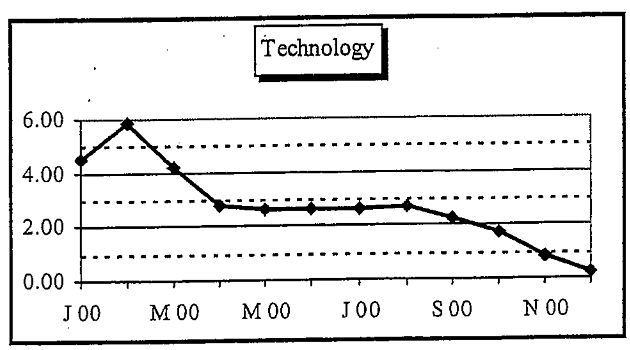












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**90 day T-bill*

HENNESSEE HEDGE FUND RANKINGS™

2000 (NET) MONTHLY RANK	YTD RANK	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
CONVERTIBLE ARBITRAGE	11	6	16	8	5	5	12	9	11	7	12	13	20
DISTRESSED ONLY	17	11	9	18	8	8	15	11	19	11	10	17	16
EMERGING MARKETS	20	13	8	10	19	21	7	19	10	21	17	11	17
EUROPE	6	9	4	11	15	13	17	13	17	15	4	8	8
EVENT DRIVEN	8	8	10	7	6	11	11	7	12	10	11	10	18
FINANCIAL EQUITIES	3	22	21	1	9	2	21	2	2	3	2	12	2
FIXED INCOME	14	15	19	13	7	10	18	18	14	8	8	4	12
GROWTH	18	12	3	21	21	20	4	22	4	19	21	21	6
HEALTHCARE/BIOTECH	1	1	1	22	17	15	1	10	1	2	6	18	4
HIGH YIELD	21	3	17	19	10	18	13	16	20	20	19	16	22
INTERNATIONAL	10	20	13	5	14	9	9	17	8	5	7	5	7
LATIN AMERICA	22	21	5	2	22	22	2	21	6	22	22	22	1
MACRO	13	17	18	14	16	17	19	14	9	13	15	2	3
MARKET NEUTRAL	12	16	20	17	4	6	20	3	18	9	3	7	13
MERGER ARBITRAGE	5	10	11	15	2	4	14	5	15	6	9	3	14
MULTIPLE ARBITRAGE	4	7	15	9	3	3	16	6	16	4	5	6	11
OPPORTUNISTIC	9	14	7	12	12	14	6	8	5	12	13	14	5
PACIFIC RIM	19	19	12	6	20	7	5	20	21	17	14	9	15
REGULATION D	15	2	6	4	11	12	10	12	13	16	20	19	21
SHORT ONLY	2	5	22	16	1	1	22	1	22	1	1	1	10
TECHNOLOGY	7	4	2	20	18	19	3	15	3	18	16	20	19
VALUE	16	18	14	3	13	16	8	4	7	14	18	15	9

The Hennessee Hedge Fund Indices™ are calculated from performance data supplied by a diversified group of hedge funds monitored by the Hennessee Hedge Fund Advisory Group. The Hennessee Hedge Fund Index™ represents over half of the capital in the industry and is an equally weighted average of the Hennessee Hedge Fund Indices™ by style Index. The funds in the Hennessee Hedge Fund Index® are statistically representative of the larger Hennessee Universe of over 3,000 hedge funds are net of fees and unaudited. Past performance is no guarantee of future returns. * The technology index consists of managers that have a minimum of 50% of their assets invested in the technology sector. *CORRELATED: Long/Short Equity; NON-CORRELATED: Event/Arbitrage and Short Bias.

HENNESSEE HEDGE FUND INDICES™

HENNESSEE GROUP LLC HEDGE FUND ADVISORY

HENNESSEE HEDGE FUND REVIEW™

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2000 (NET)	YTD	YTD RANK	% of mgrs > S&P, ytd	JAN	FEB	MAR	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
CONVERTIBLE ARBITRAGE	8.61%	11	95%	2.38%	2.38%	1.86%	0.64%	0.71%	1.90%	0.70%	2.31%	0.71%	-0.69%	-2.72%	-1.74%
DISTRESSED ONLY	2.38%	17	100%	0.41%	4.91%	-1.53%	-1.35%	-0.53%	1.69%	0.59%	1.15%	0.19%	-0.03%	-3.45%	0.52%
EMERGING MARKETS	-9.35%	20	50%	0.13%	5.20%	1.02%	-7.23%	-3.96%	3.50%	-1.36%	2.88%	-4.37%	-2.77%	-2.35%	0.27%
EUROPE	13.45%	6	94%	1.43%	13.25%	0.98%	-4.30%	-1.32%	0.98%	0.21%	1.25%	-0.82%	1.10%	-1.08%	1.93%
EVENT DRIVEN	10.87%	8	100%	1.99%	3.42%	1.97%	0.13%	-1.13%	2.05%	0.92%	2.01%	0.38%	-0.11%	-1.41%	0.25%
FINANCIAL EQUITIES	27.83%	3	88%	-4.31%	-2.10%	7.87%	-1.45%	3.13%	0.03%	4.90%	7.24%	4.16%	1.71%	-2.67%	7.25%
FIXED INCOME	5.08%	14	100%	-0.24%	1.88%	0.65%	0.05%	-1.12%	0.65%	-1.33%	1.98%	0.52%	0.31%	0.60%	1.07%
GROWTH	-3.22%	18	79%	0.17%	13.85%	-2.15%	-8.69%	-3.57%	6.24%	-3.04%	5.90%	-2.05%	-4.30%	-6.63%	3.16%
HEALTHCARE/BIOTECH	62.75%	1	100%	12.05%	35.88%	-16.91%	-4.95%	-1.41%	14.69%	0.69%	11.99%	4.73%	0.67%	-4.52%	5.45%
HIGH YIELD	-9.99%	21	80%	2.94%	2.14%	-1.67%	-1.71%	-1.54%	1.78%	-0.62%	0.49%	-2.23%	-3.50%	-3.05%	-3.25%
INTERNATIONAL	9.11%	10	75%	-2.55%	2.97%	2.96%	-3.13%	-1.05%	2.99%	-1.26%	3.27%	1.33%	0.50%	0.58%	2.44%
LATIN AMERICA	-12.54%	22	40%	-3.45%	8.01%	5.24%	-12.15%	-4.55%	12.75%	-1.76%	3.47%	-7.09%	-5.83%	-12.02%	7.74%
MACRO	5.89%	13	100%	-1.46%	1.94%	0.37%	-4.41%	-1.52%	0.49%	0.00%	3.17%	-0.31%	-1.19%	2.42%	6.64%
MARKET NEUTRAL	7.12%	12	94%	-0.75%	1.43%	-0.86%	1.53%	-0.37%	0.33%	1.45%	1.21%	0.51%	1.24%	0.22%	1.00%
MERGER ARBITRAGE	17.49%	5	100%	1.25%	3.17%	0.36%	2.44%	0.94%	1.75%	1.35%	1.96%	1.12%	0.21%	0.74%	0.97%
MULTIPLE ARBITRAGE	19.78%	4	100%	2.14%	2.42%	1.61%	2.19%	1.68%	1.54%	1.26%	1.46%	1.72%	0.71%	0.41%	1.07%
OPPORTUNISTIC	10.63%	9	100%	0.12%	5.73%	0.65%	-2.52%	-1.35%	3.74%	0.72%	3.99%	-0.28%	-0.80%	-2.91%	3.46%
PACIFIC RIM	-6.52%	19	60%	-1.79%	2.98%	2.23%	-8.32%	-0.45%	3.93%	-1.60%	0.30%	-1.70%	-1.03%	-1.27%	0.57%
REGULATION D	4.75%	15	88%	6.24%	5.74%	3.94%	-2.12%	-1.27%	2.22%	0.34%	2.00%	-1.09%	-3.56%	-5.28%	-1.79%
SHORT ONLY	29.93%	2	100%	2.46%	-5.49%	-0.04%	4.69%	3.92%	-5.69%	5.12%	-4.29%	8.49%	4.21%	13.45%	1.40%
TECHNOLOGY*	12.44%	7	79%	2.90%	19.82%	-2.03%	-6.02%	-3.16%	7.56%	-0.27%	6.76%	-2.03%	-2.74%	-5.93%	-0.37%
VALUE	3.66%	16	84%	-1.50%	2.56%	4.31%	-3.07%	-1.47%	3.17%	1.41%	3.42%	-0.50%	-3.13%	-2.95%	1.77%
HENNESSEE HEDGE FUND INDEX	**7.61%**		**87%**	**0.61%**	**7.20%**	**0.34%**	**-3.45%**	**-1.32%**	**3.74%**	**0.01%**	**3.60%**	**-0.38%**	**-1.47%**	**-2.87%**	**1.85%**
HENNESSEE CORRELATED*	**9.20%**		**85%**	**0.71%**	**11.27%**	**-0.66%**	**-5.38%**	**-2.09%**	**5.61%**	**-0.25%**	**5.69%**	**-0.43%**	**-2.61%**	**-4.63%**	**2.86%**
HENNESSEE NON-CORRELATED*	**9.38%**		**97%**	**1.62%**	**3.02%**	**0.62%**	**0.66%**	**0.06%**	**1.59%**	**0.93%**	**1.66%**	**0.51%**	**-0.22%**	**-1.39%**	**0.02%**
HENNESSEE GLOBAL	**1.34%**		**76%**	**-1.07%**	**5.57%**	**1.86%**	**-5.82%**	**-1.89%**	**3.35%**	**-0.90%**	**2.30%**	**-1.71%**	**-1.02%**	**-1.56%**	**2.74%**
P 500 w/div.	-10.14%			-5.09%	-2.01%	9.67%	-3.08%	-2.19%	2.39%	-1.63%	6.07%	-5.35%	-0.49%	-8.01%	0.41%
DJIA	-6.18%			-4.84%	-7.42%	7.84%	-1.72%	-1.97%	-0.71%	0.71%	6.59%	-5.03%	3.01%	-5.08%	3.57%
EAFE	-14.71%			-6.34%	2.71%	3.90%	-5.24%	-2.42%	3.80%	-4.29%	0.77%	-4.97%	-2.46%	-3.86%	3.44%
LIPPER MUTUAL FUNDS	-5.43%			-2.69%	7.29%	1.21%	-3.93%	-3.45%	5.40%	-3.71%	6.98%	-3.81%	-3.07%	-8.83%	4.55%
RUSSELL 2000	-4.21%			-1.69%	16.42%	-6.69%	-6.09%	-5.94%	8.62%	-3.21%	7.44%	-3.07%	-4.54%	-10.40%	8.43%
LEH BROS. GOVT/CORP.	10.10%			-0.37%	0.82%	1.04%	-0.23%	0.16%	1.76%	0.76%	1.18%	0.91%	0.46%	1.36%	1.84%
NASDAQ	-39.28%			-3.17%	19.19%	[illegible]	-15.57%	-11.91%	16.62%	-5.02%	11.66%	-12.68%	-8.25%	-22.90%	-4.90%

The Hennessee He[illegible]d Indices™ are calculated from performance data supplied by a diversified group of hedge funds monitored by the Hennessee Hedge Fund Adviso[illegible]. The Hennessee Hedge Fund Index™ represents over half of the capital in the industry and is an equally weighted average of the Hennessee Hedg[illegible]dices™ by style Index. The funds in the Hennessee Hedge Fund Index™ are statistically representative of the larger Hennessee Universe of over 3,000 hedge funds are net of fees and un[illegible]ed. Past performance is no guarantee of future returns. * The technology index consists of managers that have a minim[illegible]0% of their assets invested in the technology sector. *CORRELATED: Long/Short Equity; NON-CORRELATED: Event/Arbitrage and Short Bias.